Memorandum

To: Peter Barth   **Date:**   December 22, 2009
              Assistant Secretary
              Department of Finance
              915 L Street
              Sacramento, CA 95814

From: David M. Carlisle, M.D., Ph.D.
              Director

Subject: Review of the Systems of Internal Control

In accordance with the Financial Integrity and State Managers Accountability
Act of 1983, Government Code Sections 13400 through 13407, I am submitting
the enclosed report describing the review of our systems of internal control for
the biennial period ending December 31, 2009.

As statutorily required, the Office of Statewide Health Planning and
Development is in compliance with Government Code Section 12439.

Enclosure

cc: Director's Office File

INTRODUCTION:

In accordance with the Financial Integrity and State Managers Accountability (FISMA) Act of 1983, the Office of Statewide Health Planning and Development submits this report on the review of our systems of internal accounting and administrative controls for the biennial period ended December 31, 2009.

Should you have any questions please contact Stephanie Clendenin, Interim Chief Deputy Director, at (916) 326-3600 or sclenden@oshpd.ca.gov.

BACKGROUND:

The mission of Office of Statewide Health Planning and Development (OSHPD) is to promote healthcare accessibility through leadership in analyzing California's healthcare infrastructure, promoting a diverse and competent healthcare workforce, providing information about healthcare outcomes, assuring the safety of buildings used in providing healthcare, insuring loans to encourage the development of healthcare facilities, and facilitating development of sustained capacity for communities to address local healthcare issues. These activities are addressed with approximately 483 staff positions and an annual budget of roughly $99 million.

OSHPD has established, documented, and maintained a system of internal accounting and administrative control, which are communicated to employees, and modified, as appropriate, for changes in condition.

VACANT POSITIONS:

During the time frame covered by this report, OSHPD had one position abolished as a result of Government Code (GC) Section 12439; however, OSHPD received approval from the Department of Finance to re-establish this position pursuant to GC Section 12439 (b)(1) because this position was lost as a result of a hiring freeze.

To avoid the loss of vacant positions subject to GC Section 12439, OSHPD Human Resources staff works with program staff in their recruitment efforts to fill positions, processes Personnel Action Requests, payroll, and STD. 607 Change in Established Positions forms on a timely basis, and monitors position loss dates.

RISK ASSESSMENT:

To initiate this assessment, OSHPD reviewed the Internal Control Review issued by the Department of Finance in December 2007 to determine if previous audit findings had been resolved. OSHPD management then conducted a risk analysis to identify and evaluate the threats and/or risks that could impede OSHPD's achievement of its objectives and discover where the greatest vulnerabilities lie. The review was designed to take a high level examination of the current state of controls as of the end of calendar year 2009 in terms of correcting previously identified problems and mitigating potential future problems or risks in our program execution. This review was designed to provide executive management with a tool to decide

where attention should be focused to ensure OSHPD is carrying out its mission in a fiscally and operationally sound manner.

Based on this review, executive management determined that OSHPD's greatest risks lie within key person dependencies and information technology practices. However, issues identified below include risks from all aspects of OSHPD's activities. The risks/issues identified do not necessarily constitute control deficiencies, but rather are enhancements to activities designed to achieve OSHPD's missions and goals.

EVALUATION OF RISKS AND CONTROLS:

Administrative Services Division

The Administrative Services Division provides administrative and information technology support for OSHPD. The services provided include:

- Procurement and Contract Services
- Facilities Management
- Fiscal Services including Accounting and Budget Services
- Human Resources Services
- Information Technology Services

Issue #1: Key Person Dependency – Maintain and monitor CALSTARS system tables and the Labor Distribution subsystem tables

The OSHPD Accounting Office utilizes the CalSTARS automated accounting system to account for the revenues and expenditures of the department. An Associate Administrative Analyst (AAA) maintains and monitors the CALSTARS system tables and the Labor Distribution subsystem tables. The AAA is responsible for the following functions using the CalSTARS subsystem:

- Monitor and track all labor expenditures for OSHPD's various funds
- Review all personnel timesheet entries for accuracy to ensure appropriate allocation of expenditures via the labor distribution process
- Update and maintain the CALSTARS system tables
- Identify program cost accounts required to track expenditures and revenues and create cost codes and inputs into tables
- Prepare reconciliation of labor distribution and making necessary expenditure adjustments and table entries
- Run the cost allocation and fund split process within the CALSTARS system to ensure end of the month closure of CalSTARS system and the accounting records
- Serve as the main contact for tables and labor distribution issues

Currently, a key person dependency exists for these functions because there is not a sufficiently trained resource to perform these duties in the absence of the AAA. Without an appropriately trained back-up resource to perform these functions in the absence of the current AAA, the timeliness and accuracy of OSHPD's expenditure and revenue accounting and reporting would be at risk.

Corrective Action: The OSHPD Accounting Office will identify a resource to be cross trained on these critical functions and will outline a training plan to ensure the resource is adequately trained to perform these functions. Additionally, the Accounting Office will develop and maintain detailed desk procedures to ensure there is adequate documentation of these duties.

Issue # 2: Key Person Dependency – Maintain and monitor all functions of the Facilities Project Subsystem (FPS) to ensure timely collection of revenues

The OSHPD Accounting Office utilizes a complex accounting subsystem, FPS, to track and monitor the invoicing and revenue collection for all healthcare facilities construction projects submitted to OSHPD's Facilities Development Division. An Accounting Analyst (AA) is responsible for the following functions using FPS :

- Monitor and track all transactions entered into FPS related to the invoicing and revenue collection of project fees for FDD
- Verify project expenditures for FDD
- Verify payments and confirm revenue collected from facilities
- Monitor outstanding project invoices and perform collection activities
- Prepare various monthly reconciliations of FDD accounts receivable, revenues, refunds and prepare reports for managers
- Serve as the main contact person between FDD program managers, healthcare facilities, Accounting Office, and other state agencies

Currently, a key person dependency exists for these functions because there is not a sufficiently trained resource to perform these duties in the absence of the AA. Without a trained back-up resource to perform these functions in the absence of the current AA, the accuracy of OSHPD's revenue invoicing and refund process and the timely collection of millions of dollars of revenue would be at risk.

Corrective Action: The OSHPD Accounting Office will identify a resource to be cross trained on these very critical functions and will outline a training plan to ensure the resource is adequately trained to perform these functions. Additionally, the Accounting Office will develop and maintain detailed desk procedures to ensure there is adequate documentation of these critical duties.

Issue # 3: Change Control

When making changes to OSHPD's Information Technology (IT) systems and infrastructure, interdependencies exist between business program, legislative, regulation, and industry changes (upgrades, patches, etc.) that need to be managed comprehensively across IT and OSHPD. Without an appropriate change control program, OSHPD risks system failure, data integrity issues, and extra workload related to identifying and fixing conflicts. Additionally, unauthorized changes risk the exposure of security holes and may allow unauthorized access to OSHPD's systems.

Corrective Action: OSHPD will conduct an analysis of the need for a change control process and document requirements, design a Change Control process including processes, tools and management and implement a department-wide change control process in alignment with industry and Office of the Chief Information Officer (OCIO) standards.

Issue # 4: Security Vulnerability Assessments of all Network, Telecommunications and System Configurations

Without comprehensive on-going security assessments the risk of mis-configurations and the presence of rogue devices in OSHPD's IT infrastructure may lead to unauthorized access of OSHPD data and systems. The risk is possible data leakage, loss of data integrity, and the loss and unavailability of network and data.

Corrective Action: OSHPD's Information Technology Services Section (ITSS) will collaborate with OSHPD's Information Security Office to define appropriate security assessments for the OSHPD environment, procure and implement necessary tools or make appropriate infrastructure enhancements to facilitate assessments, and define an ongoing assessment schedule and a process for review, reporting and follow-up on assessment results. Additionally, ITSS will establish a process to address issues identified during the assessments and maintain current network documentation.

Issue # 5: Key Person Dependencies on Key IT Support Areas

Because OSHPD is a small organization supporting many complex technologies, single positions have been allocated to support these technologies (ex: ORACLE DBA, Informatica ETL, Business Intelligence, VOIP, CISCO, Print Servers, Network Infrastructure, etc). This has placed OSHPD in a vulnerable position when an employee leaves. This has become a much higher risk with the inability to contract for services until new staff can be hired, trained and can take over ongoing functions.

Corrective Action: OSHPD's ITSS will identify key IT dependencies, evaluate staff skills and technical requirements and develop a plan to document IT processes, cross-train and implement back-up in all IT areas. Additionally ITSS management will reallocate vacant positions as needed to allow for secondary support roles.

Issue # 6: Disaster Recovery Site

Prior to OSHPD's relocation into one central Sacramento location, alternate Sacramento sites were designated for disaster recovery. OSHPD has an office in Los Angeles that was designated as the new Disaster Recovery site, however it is not currently functional for this purpose and will require infrastructure upgrades. OSHPD is currently at risk for significant down-time of critical IT services in the event that there are system/infrastructure failures or facility issues at the Sacramento site.

Corrective Action: OSHPD will develop a plan to architect a recovery site in Los Angeles, define recovery requirements, and design and procure the necessary hardware and software to implement the site. Additionally, OSHPD will develop, implement and document recovery procedures, conduct recovery tests and maintain a recovery plan.

Facilities Development Division

The Facilities Development Division (FDD) reviews and inspects health facility construction projects valued in excess of $20 billion. FDD enforces building standards published in the California Building Standards Code as it relates to health facilities construction.

Issue # 1: Lack of Access to Advanced Software used by Hospital Designers

Hospital designers use advanced software programs to assess and verify the structural integrity of hospital building designs. FDD staff must use the same software program when reviewing hospital building designs but staff does not always have the same software that the designers use. The current process to purchase software is lengthy and delays OSHPD's review process. OSHPD generally completes the first design review process of a typical large project within 100 days; however, the procurement process can take several months for new software.

Corrective Action: Instructions have been placed in the initial application to allow submitters to indicate any specialized software they are using to design the project. This allows some lead time for OSHPD to procure the software, but can still result in project review delays. FDD will list the software that we currently utilize and inform the design team that their use of specialized software not on our list may delay our review.

Issue # 2: Lack of Acceptance/Approval Criteria or Oversight of Testing Labs

FDD receives from materials-testing laboratories the materials-testing evaluations of existing materials used in a building requiring retrofit. However, FDD does not have existing approval criteria for the laboratory methods, processes, procedures, or oversight of the testing labs themselves. An unqualified or negligent testing laboratory could approve substandard existing/retrofit materials for use in a hospital, thus placing patients, staff and public at risk of injury or death.

Corrective Action: FDD is in the process of forming an Inspection Services Unit which will establish criteria for approval of materials-testing laboratories.

Issue #3: Timely Processing of Revenue Refunds

Interdependencies exist between FDD and OSHPD's Accounting Office for the review and approval for refunds of revenue collected for healthcare facility construction projects. Delays in refund approvals place OSHPD at risk for accruing penalties under the California Prompt Payment Act.

Corrective Action: FDD will complete an internal audit of the current process for approval and processing of these revenue refunds. FDD will ensure appropriate administrative controls are in place and streamline the approval process to ensure refund approvals or denials are issued within 30 days of the healthcare facility's request.

Healthcare Information Division

The Healthcare Information Division (HID) collects data from all licensed health facilities in California and ensures the accuracy and confidentiality of the data. The Healthcare Outcomes Center and the Healthcare Information Resource Center provide healthcare information products for accurate assessment of patient outcomes, healthcare planning, patient safety and the avoidance of errors in the healthcare delivery system.

Issue # 1: The Current Standard of International Statistical Classification of Diseases (ICD-9) Coding will No Longer be Accepted by the Federal Government

The International Statistical Classification of Diseases and Related Health Problems 10th Revision (ICD-10) is a coding structure related to medical terminology of diseases and symptoms, developed by the World Health Organization. On October 1, 2013, the federal government will implement ICD-10, requiring health facilities to use ICD-10 standards for electronic correspondence on billing, public reporting, and other purposes, and on that date, will no longer accept use of the current standard, ICD-9. Before the 2013 deadline, OSHPD must adjust data reporting systems and develop transition systems to ensure continued operations for accepting, validating, displaying, and disseminating data using the ICD-10 coding structure.

If data collection systems cannot be updated to accommodate the ICD-10 coding structure by October 1, 2013, mandated collection of patient level data will be impossible. Data and data products would not be available to assist the public, legislature, and researchers with making informed healthcare decisions.

Corrective Action: OSHPD staff will document all planned and completed activities related to the transition from ICD-9 to ICD-10, and train its staff to assist users, consumers and reporters of OSHPD data. In addition, OSHPD will conduct an analysis of the impact ICD-10 will have on all core business functions. Based on those findings, OSHPD may follow up with a Feasibility Study Report for system changes needed in data collection and dissemination.

Issue # 2: Critical Functions Dependent on Highly Technical Staff

Largely due to an aging workforce, HID faces pending retirement of key staff in critical functions, including medical records coding, data validation, statistical computer programming, development and testing of data models, and other data-related technical expertise. Concurrently, new technologies present new opportunities to explore more efficient ways, less reliant on highly technical staff, for collecting, validating, analyzing, and reporting healthcare data.

As key staff leave OSHPD, without necessary knowledge transfer, development of staff skills or development of new approaches for performing work, the loss of key technical capacities may hamper performance of mandated activities, such as data collection, validation and dissemination. These activities require knowledge of medical records coding, data validation, data user support functions, development and maintenance of reporting systems, statistical programming, product validation and technical expertise to analyze healthcare data.

Corrective Action: HID will develop and implement plans to transfer knowledge and cross-train staff, provide staff additional training designed to increase their capacity to perform critical activities, and explore opportunities such as automating production processes to perform work in a new manner, not as reliant on highly technical staff. In addition, HID will request that the appropriate job classifications be included in OSHPD Human Resources Services annual Examination Plans to support efforts to recruit expert staff in the relevant areas and at the appropriate level.

Issue # 3: Integrity of Hospital-Submitted Data used in Hospital Outcome Reports

HID has automated data validation editing for patient-level Patient Discharge, Emergency Department, Ambulatory Surgery, and Coronary Artery Bypass Graft Surgery data reported by hospitals. These HID programs have established data quality reports, occasional hospital staff training, and occasional medical records audits to help ensure the quality of data collected and reported by OSHPD.

If data problems go unchecked there is a risk that OSHPD would unknowingly report data that may have an unacceptable level of errors, making the value of the data questionable to researchers, healthcare providers, policy makers and the public.

Corrective Action: HID will identify resources or alternatives for developing ongoing validation activities which include the following three components: 1) Linkages between different data sources that incorporate automated validation and error-checking, 2) Patient medical chart reviews (medical record re-abstraction studies), and 3) Audit of financial, utilization, and pricing information submitted by hospitals, long-term care facilities, and clinics.

Health Professions Education Foundation

The Health Professions Education Foundation (Foundation) was established as a nonprofit public benefit corporation to improve healthcare in underserved areas of California by supporting the development of health professionals agreeing to serve in communities of most need. The Foundation administers scholarship and loan repayment programs for health professional students and graduates from underserved communities and economically disadvantaged backgrounds. In return for this support, program recipients agree to provide direct patient care in a medically underserved area of California for a specified period of time.

Issue # 1: Potential Loss of Revenue due to Breached Contracts

The Foundation's policy is to reinvest its recovered funds from breached contracts into additional scholarships and loan repayments. As of November 2009, the Foundation has a current breach rate of approximately 5%. The Foundation's inability to collect on these contracts represents a loss of funding for the program.

The Foundation may be unable to accomplish its mission and goals due to reduced funding of health professions scholarship and loan programs. This could result in a shortage of healthcare professionals employed in the underserved areas of California.

Corrective Action: The Foundation is currently evaluating its existing programs and policies relating to breaches to develop an understanding of how and why breaches occur. The Foundation continues to work with both OSHPD's Accounting and Legal Offices to explore alternative methods for guaranteeing compliance with scholarship and loan agreements such as credit verification and references. Lastly, the Foundation is also exploring alternative collection procedures to collect the balances due.

Healthcare Workforce Development Division

The Healthcare Workforce Development Division (HWDD) coordinates the state's healthcare workforce issues, including administration of the following programs:

- Song-Brown Healthcare Workforce Training Program
- Shortage Designation Program
- Health Workforce Pilot Projects Program
- Health Careers Training Program
- National Health Service Corps/State Loan Repayment Program
- Health Care Workforce Clearinghouse

In addition, HWDD staff collect, analyze and publish data about California's healthcare workforce and health profession training, identify areas of the state with shortages of health professionals and service capacity, and coordinate with other state departments in addressing the unique medical care issues facing California's rural areas.

Issue # 1: Lack of Written Procedures

HWDD does not have existing procedures manuals for each HWDD program as a training tool for new employees or as a reference guide for existing employees.

Corrective Action: HWDD will finalize desk manuals and develop procedures for ongoing maintenance of manuals, and will also document workload processes.

CONCLUSION:

This review identified no material inadequacy or material weakness in OSHPD's systems of internal control that prevent OSHPD from complying with FISMA.